

# Making the Right Choice for Your Business

**Energy  
Restructuring  
Made Easy**



TXU Energy Services is not the same company as TXU Electric & Gas and is not regulated by the Public Utility Commission of Texas, and you do not have to buy TXU Energy Services' products to receive quality regulated service from TXU Electric & Gas.

**TXU Energy Services**

# Presentation Overview

- **TXU Energy Services Role**
- **Texas Deregulation Overview**
- **National Deregulation Overview**
- **What is Happening in California & Will It Happen Here?**
- **Next Steps to an Open Texas Energy Market**

# Who is TXU Energy Services?



- TXU Energy Services is a wholly owned subsidiary of TXU (formerly Texas Utilities) who is the 9th largest energy service company in the world (*Fortune Magazine*).
- Unregulated energy services business established in the early 1980's with headquarters in Dallas, Texas and customers in 32 states.
- TXU is a multinational leader in electric and natural gas services, energy trading, energy marketing, telecommunications and other energy related services.

# Why TXU Energy Services?



- You know TXU, we know Texas electricity. TXU has operated an electric company in Texas for over 100 years.
- TXUES is retail focused and provides the creative structures and trading techniques to hedge in the new electric commodity market.
- We provide additional energy services like unregulated natural gas sales, load profiling and power quality service.
- Our market strategy is relationship oriented, not transactional.
- We are committed to keeping you informed so that you can make educated decisions about your energy purchases.

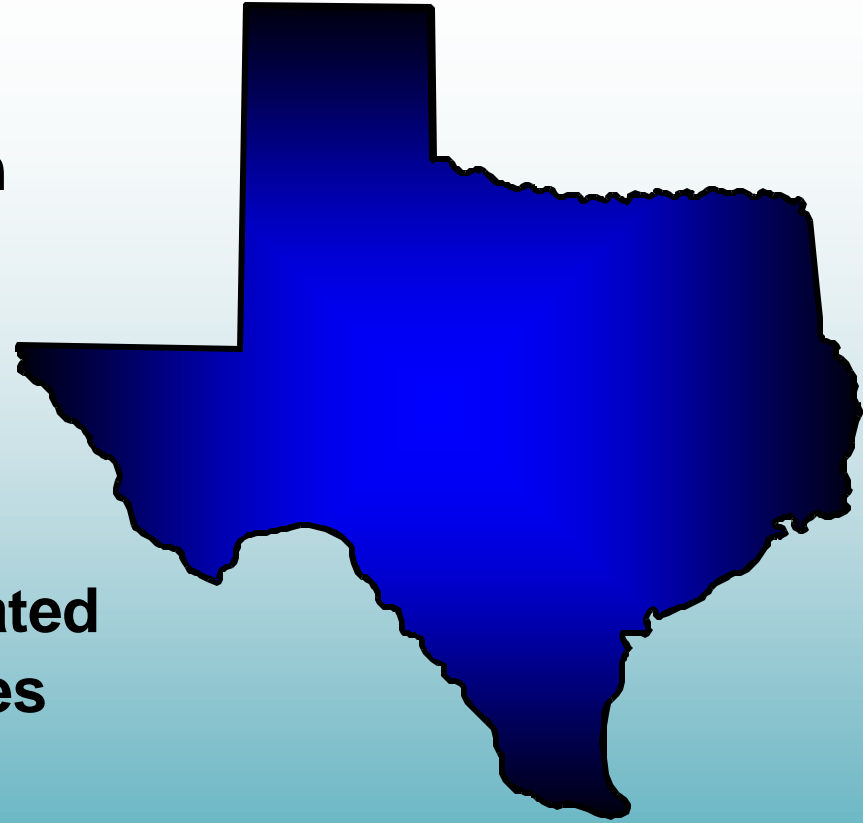


# Current State

# What about recent increases in regulated utility rates?



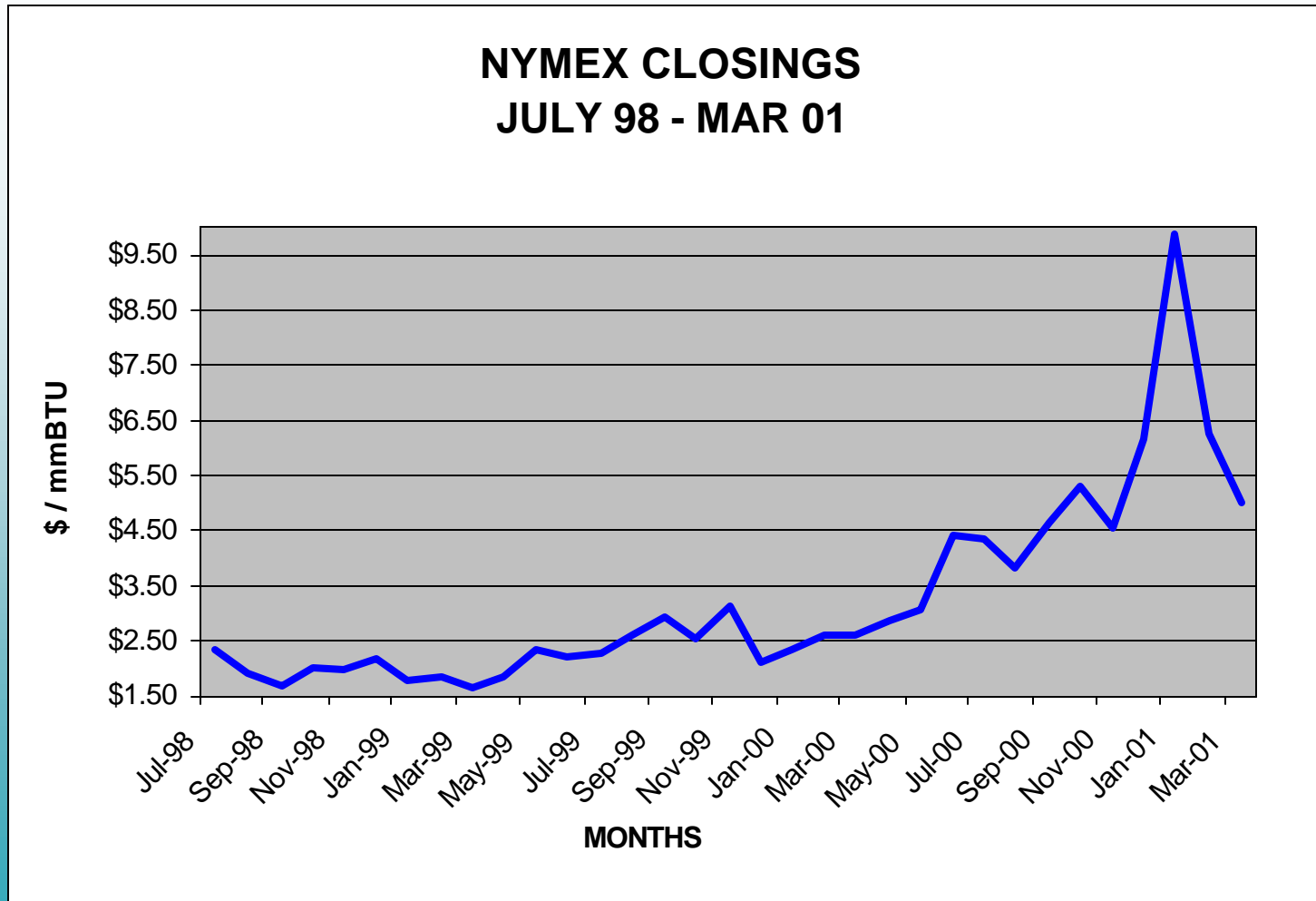
- Electricity costs have been affected by the recent rise in cost of fuel for generating electricity.
- Texas Electric Choice Act - anticipated possible fuel increases, and allows regulated utilities to pass fuel increases through to customers.



# What caused electric prices to change so drastically?



## Natural Gas Monthly Closing Prices



# What does this mean to the future of Texas deregulation?



- **Electricity Costs will continue to be affected by the volatility in natural gas prices.**
- **In ERCOT, approximately 69% of the generation will be natural gas fired with the generation projects under construction and 73% if the announced projects in ERCOT are developed.**
- **Electricity in the future will be a traded commodity and probably have price spikes more volatile than natural gas.**



# Deregulation Issues

# Shifting Energy Paradigm



## **TODAY:**

- **Regulated tariffs**
- **Vertical utility companies**
- **Limited Choices**
- **Minimal investment**

# Shifting Energy Paradigm



## **TODAY:**

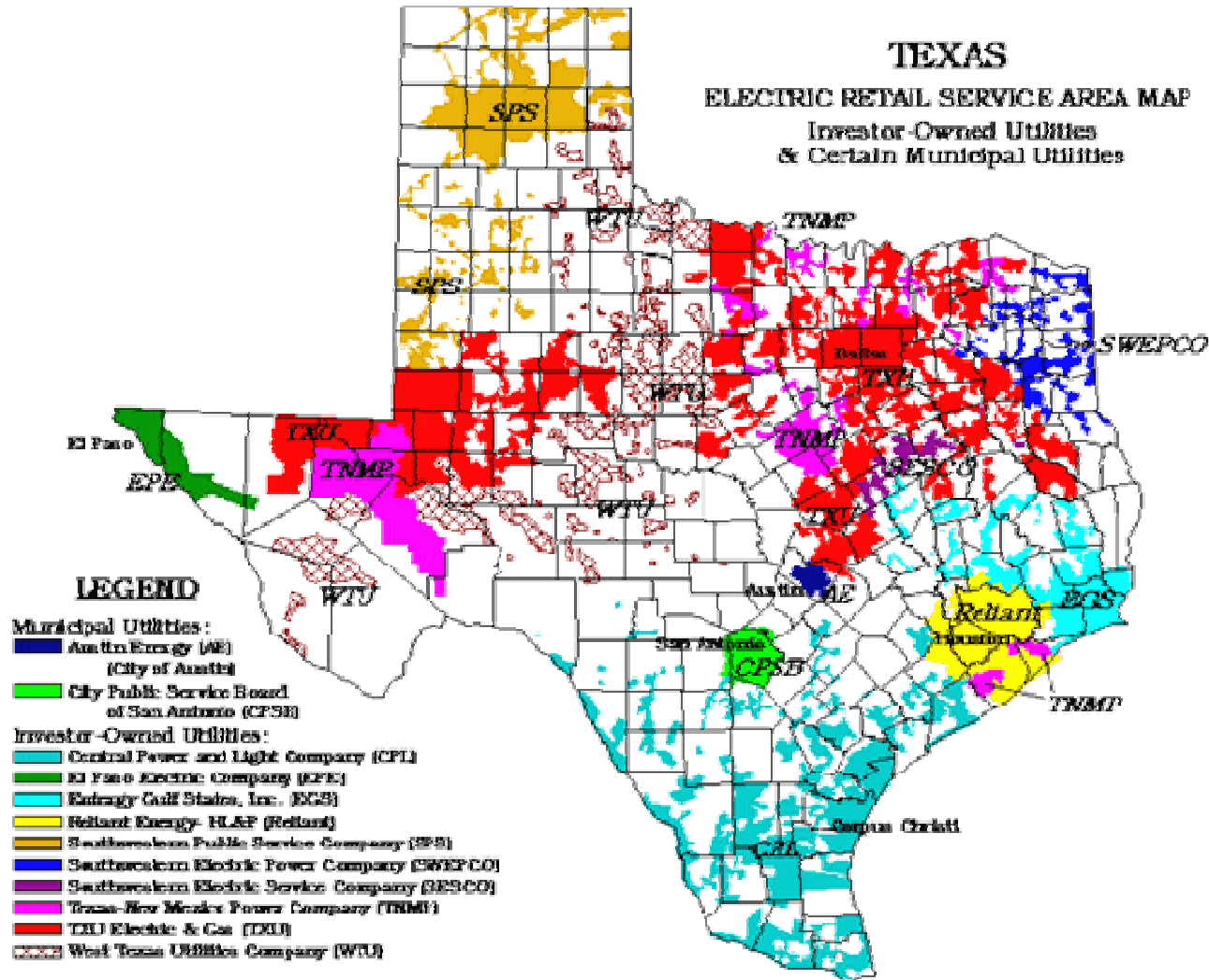
- **Regulated tariffs**
- **Vertical utility companies**
- **Limited Choices**
- **Minimal investment**

## **TOMORROW:**

- **Negotiate contracts**
- **Capital investment - controls, equipment**
- **Predictable Budgets**
- **Flexible Pricing**
- **Deploy multiple energy sources**
- **Upgrade energy skills**



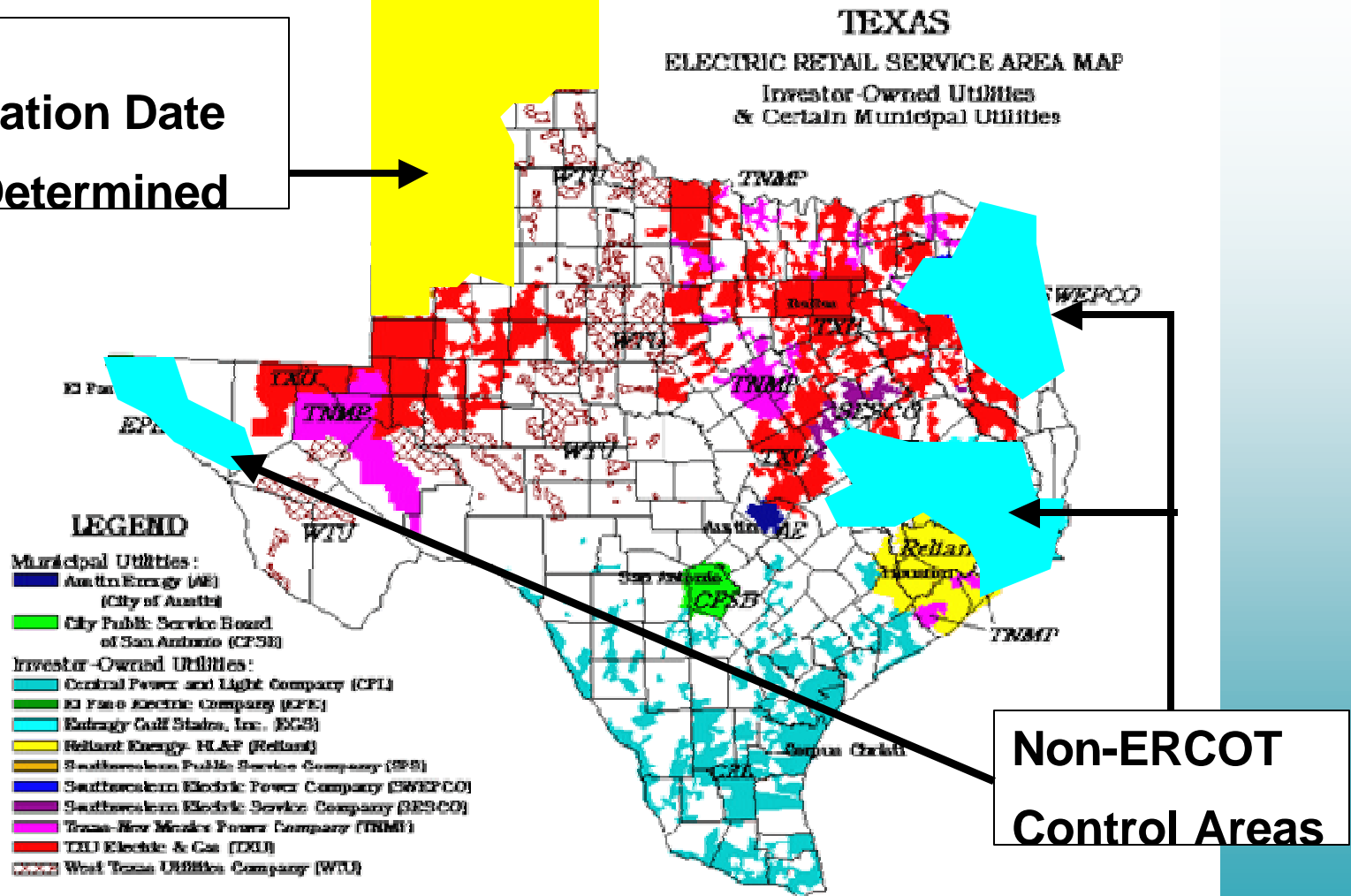
# Texas Certified Service Areas



# Texas Areas Opening to Competition



Actual  
Deregulation Date  
To Be Determined



# Electric Choice in Texas Pilot Program



- **February 15- March 15, 2001: Web based volunteer enrollment to participate (most areas are oversubscribed)**
- **March 21, 2001: Utilities post status of applicants on web site**
- **May 10, 2001: Deadline for contracting with a REP (un-contracted load will be released from Pilot)**
- **June 1- December 31, 2001: Pilot Program begins - a test of the systems (5% of load may participate)**
  - **customers selected for the Pilot are likely to be excluded from utility surcharges and fuel increases**

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- **January 1, 2002: Retail electricity market opens**

- **Electricity choice starts with the first official meter read date in January, 2002 unless there is a requested special meter read date.**
  - **Customers will default to the affiliated REP in January, 2002.**
  - **After January, 2002, customers who do not choose a REP will default to the Provider of Last Resort (POLR)**
- **Must have 10 days prior notice to process a switch request to a new REP.**
- **Utilities will no longer send bills to customers. All bills from the REP will include costs for the utility delivery charges.**

# Price to Beat

- Applies only to meters <1 MW
- Offered by affiliate REP - PTB is the only rate the affiliate REP can offer in the utility service area if the customer cannot aggregate commonly owned or franchised meters to >1 MW
- 6% off qualifying bundled tariff as of *September, 1999*
  - does not include any discount off the recent fuel increases.
- Not protected against future fuel cost increases

6%  
off what?

# Standard Profiles

- Applies only if there is no IDR meter
- Once an IDR meter is installed, it will be used for billing purposes
  - No obligation for utility to install interval metering for  $< 1$  MW meters - subject to standard profiles if no IDR meter
- Standard profiles are being evaluated - currently three standard profiles for non-IDR meters
  - $< 40\%$  load factor,  $40\%$ -  $60\%$  load factor and  $> 60\%$  load factor
- *Decision point: do these profiles make sense for your business or do you need an IDR?*

# Standard Prices for >1MW Customers



- **No *PUC controlled* price protection for >1MW customers.**
  - **There will be a standard offer price established by the affiliate REP that is subject to change as decided by the *REP*. The first standard offer will be set June 1, 2001.**
- **> 1MW meters will be required to have IDR meters - installed and paid for by the utility.**
- **If > 1MW customers do not choose a REP on January, 2002, they will be assigned to the affiliate REP at the affiliated REP's standard price.**



# 2002 Electric Market



- **Many deregulation issues still not settled**
  - Price to Beat rates
  - Wires Charges (April 2001)
  - Standard Profiles
- **Retail Electricity Market is not liquid yet...**
  - Bid and Offer spreads are wide
  - Published index not yet defined for ERCOT
  - No liquid trading of a NYMEX contract for electricity
- **Municipals & Cooperatives**
  - Do not have to opt in.

# 2002 Electric Market



- **Important to pay attention to details**
  - **Energy profiles are critical to pricing in a deregulated environment.**
- **Every meter will be assigned an ESI ID and until they are assigned over the next few months, utility account numbers are critical.**
- **Know whether facilities are located on IOU's, Co-ops or Municipals**
- **Know where facilities are located**

# Market Participants

- **Retail Electric Providers**
  - **buy and sell electricity**
  - **sell energy to retail customers**
  - **only REP's can invoice retail customers**
  - **do not own or operate generation, pipes or wires assets**
  - **in electricity, a REP must be licensed, bonded, approved by PUC**

# Market Participants

- **Aggregators**
  - cannot sell electricity, but can represent a consortium of buyers.
  - the retail customer contracts directly with a REP but receives a price as part of the aggregation group.
- **Brokers/Consultants**
  - energy auditors, consulting engineers, former utility employees
  - cannot sell electricity.
  - by definition, do not take possession of commodity.
  - generally provide advise on RFP's

- **Benefits of Deregulation:**
  - You can match your price to your risk strategy.
  - Allows you to more accurately budget.
  - Allows the freedom to buy in and out of the market as you choose.
- **Detriments of Deregulation:**
  - Must make decisions.
  - Subject to second guessing by management.
  - More information to process.
  - Need to be informed.

# What about California?



**What is happening in California?**



- ***Will it happen in Texas?***

# What is Happening in California?



## Growing Demand

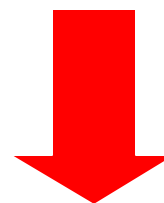
- 600,000 new residents per year
- Technology driven economy, increased load
- Disappearing reserve power margin

## Lack of Supply

- Environmental regulations
- No new power facilities on line until 2002
- Generation developers deterred by uncertainty

## Market Rule Limitations

- No bilateral contracts
- No forward contracts in wholesale market
- No hedging opportunity



## Supply

No new power plants in 10 years

## Demand

All spot-market buys - no hedging allowed through long-term bilateral contracts



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## Expensive Wholesale

\$\$\$ Prices \$\$\$



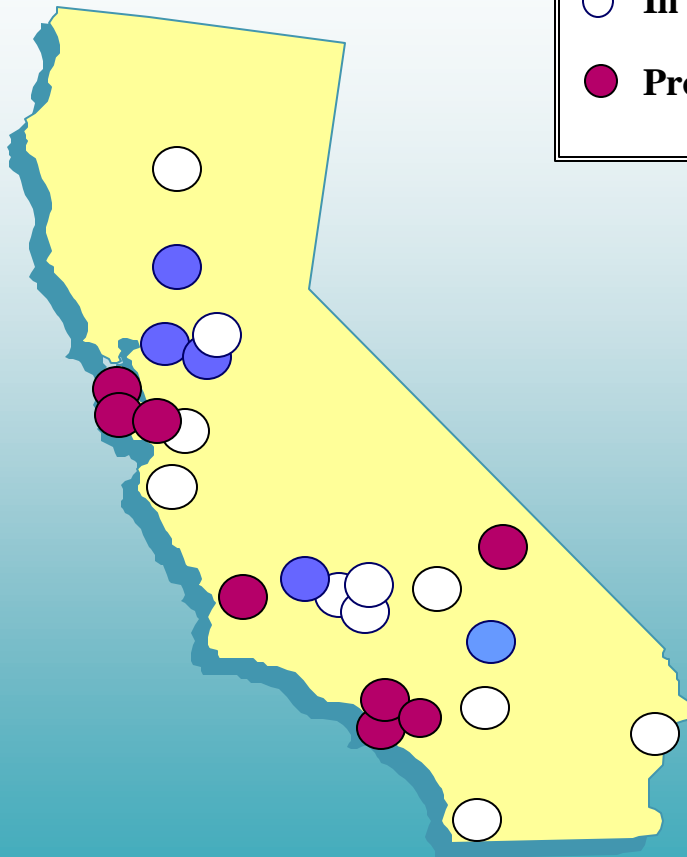
# California: Market Flaw

- **California requires that all electricity be purchased from a mandatory power pool, removing incentives for buyers to “shop around”.**
- **California utilities purchase about 20,000 MWs per hour from the market during hot conditions.**
- **Most utilities in other regions have excess generation and/or contracts and often sell into the market when prices are high. This allows them to “hedge” which can reduce the impacts of price swings.**

# Generation Projects In California



● Approved/Under Construction	3,648 MW
○ In Licensing	8,045 MW
● Proposed	3,850 MW



## Potential In-Service Schedule

2000	49 MW
2001 (after summer)	2,368 MW
2002	5,457 MW
2003 & Beyond	7,198 MW

## Issues:

Historically, 50% of licensed plants go in-service

New generator equipment lead-time is 2003

# Texas: Why is it different?



- ✓ **Bilateral markets dominate with little spot market activity.**
- ✓ **Texas has enough existing and planned generation capacity to meet its demand.**
- ✓ **Texas Legislature deregulated wholesale market in 1995.**
- ✓ **Texas is not dependent on imported power.**
- ✓ **Very healthy reserve power supply that is continually expanding.**

# New Power Plants in Texas

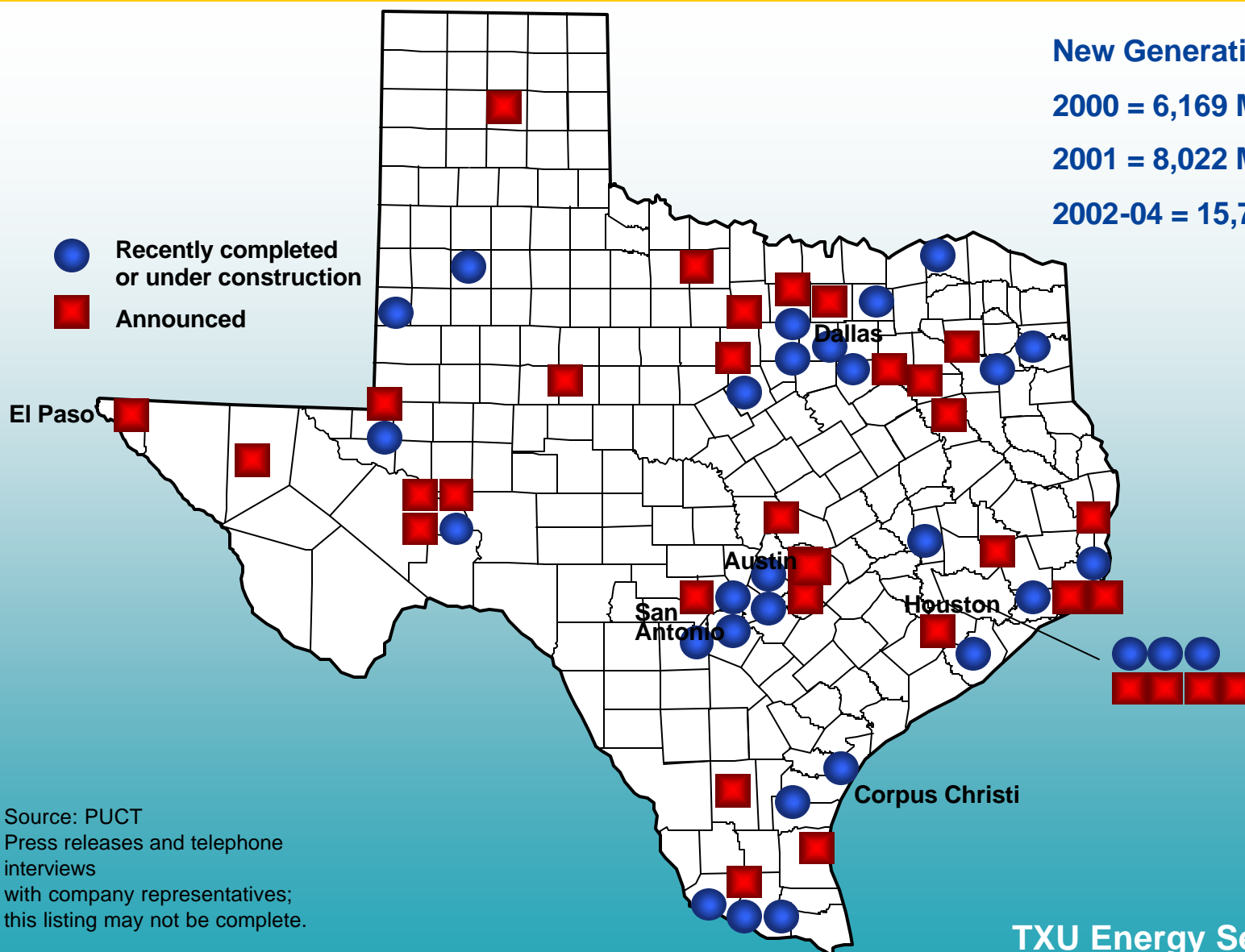


**New Generation:**

**2000 = 6,169 MW**

**2001 = 8,022 MW**

**2002-04 = 15,740 MW**



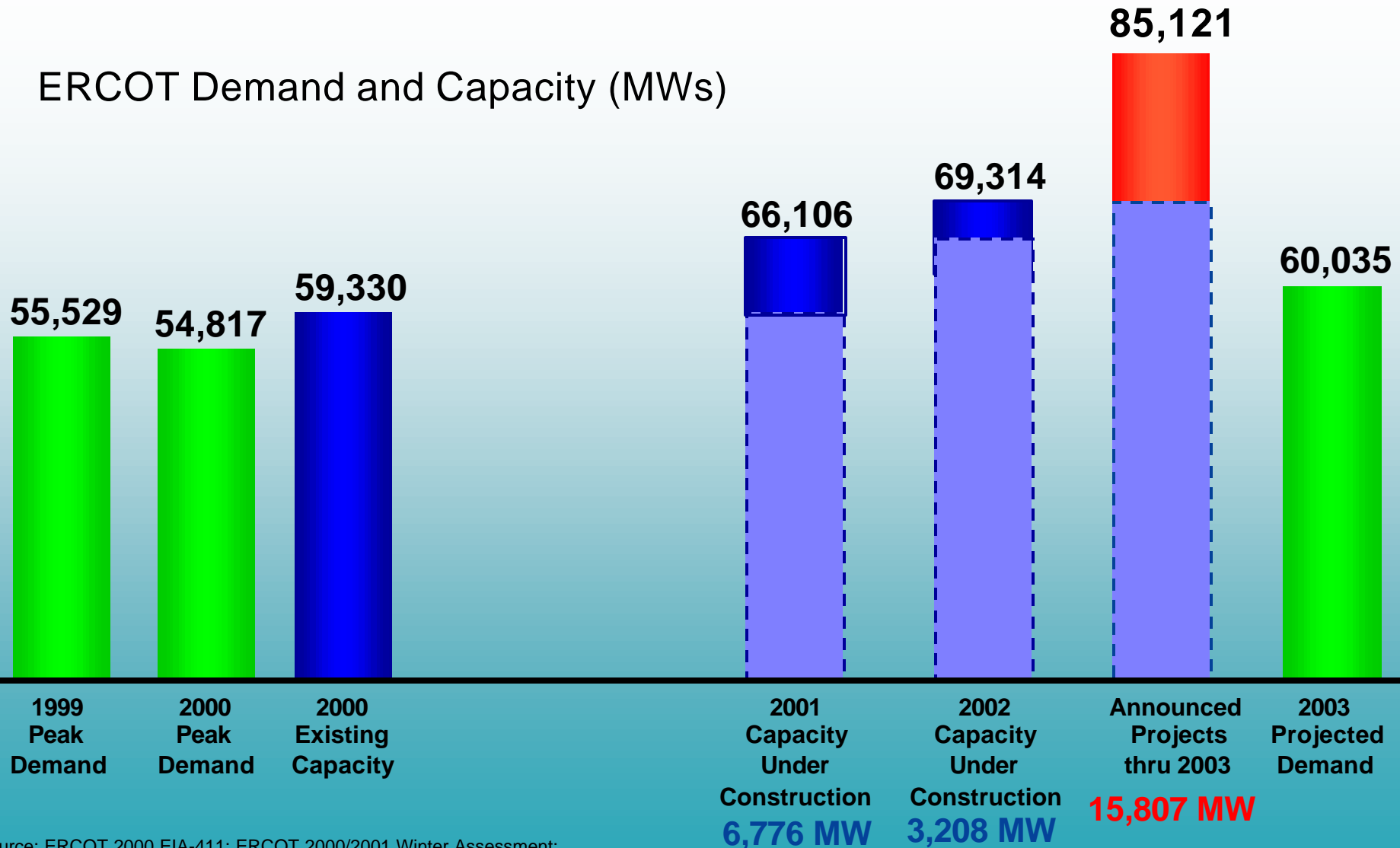
Source: PUCT  
Press releases and telephone  
interviews  
with company representatives;  
this listing may not be complete.

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# New Generation Capacity Provides Ample Reserves



ERCOT Demand and Capacity (MWs)

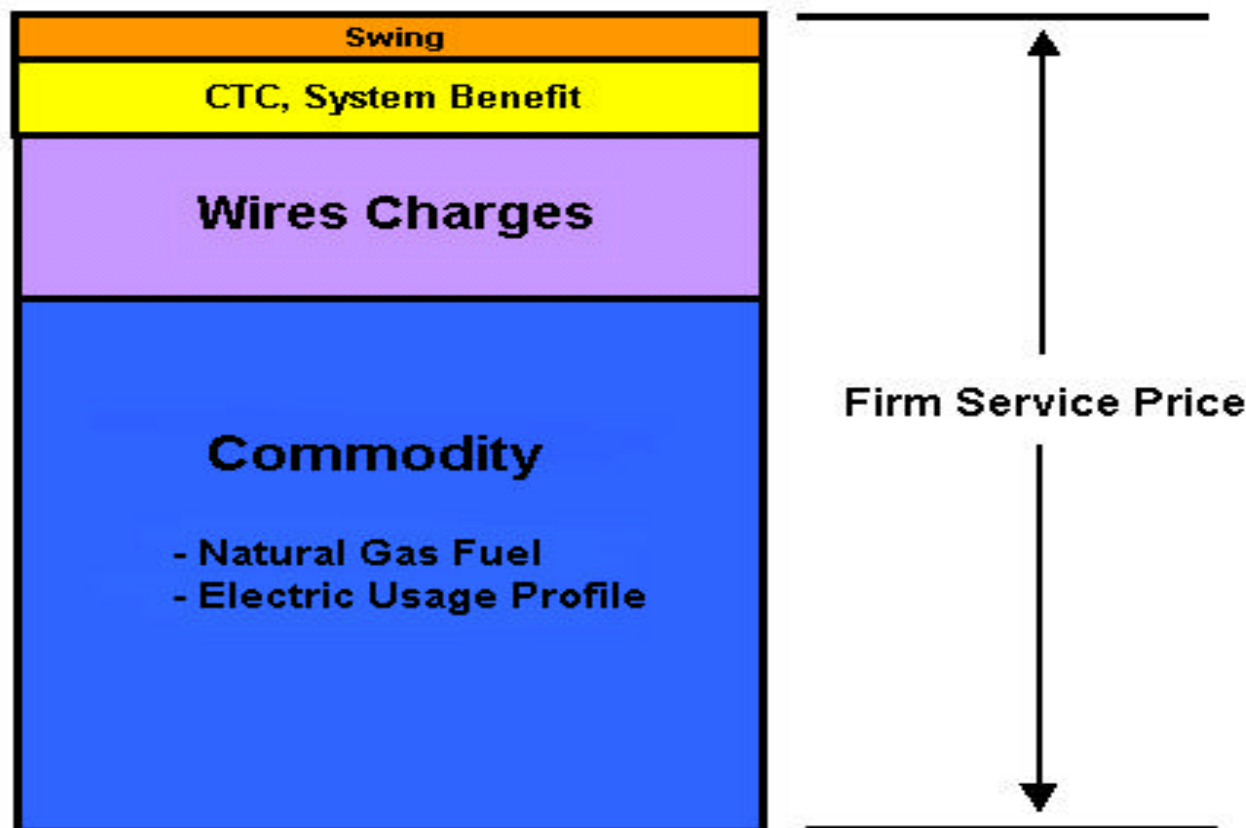


# The New Energy Market

# Electricity Pricing Components (Natural Gas/Profile will be keys)



## Electric Power Price Components





# Events that affect commodity prices:



- Supply and demand
- Anticipation of a major weather front
- Major facility outages
  - Nuclear Plants
  - Pipelines
- Transmission Constraints
- Market Speculation
  - Short or long positions
  - Mutual fund activity



# Other factors that affect electricity prices



- **liquidity** - a high level of trading activity
- **volatility** - a measurement of price fluctuation
- **size of transactions**
- **term of transaction**

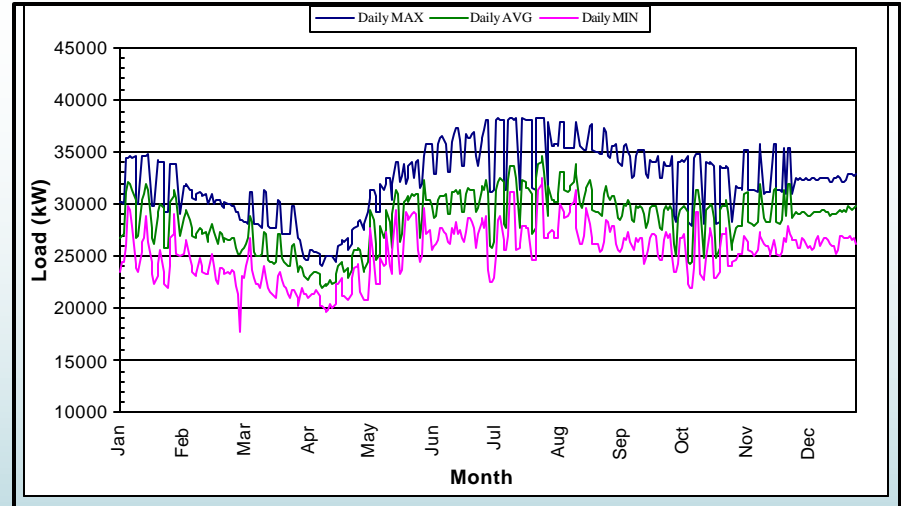
# Strategies for Energy Purchasing

# Understanding your load profile



## Why is it important?

- Future price influence
- Identify anomalies
- Evaluate aggregation benefits
- Identify energy saving opportunities
- It is not just the cost per kWh for energy but how much you use and when!!!!



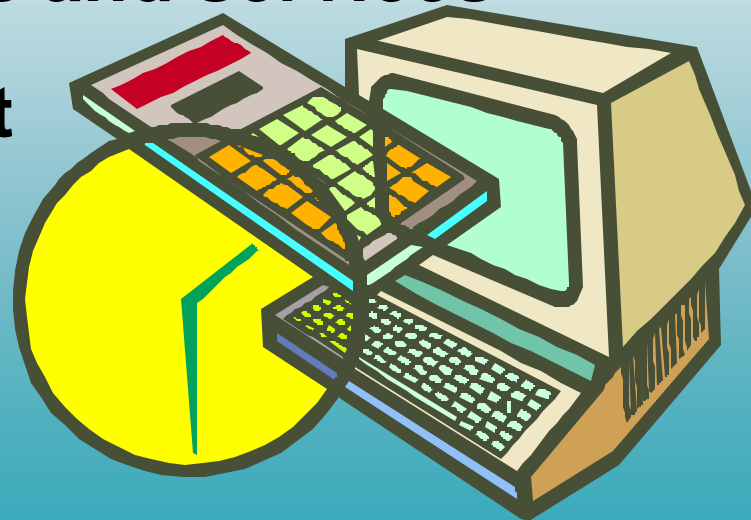
## **"Golden Rule"** for Commodity Purchasing

- **Customer strategy must be in place**
  - Pricing goals and pricing structure
- **Customer must have responsible representative**
  - Decision maker with the authority to “pull the trigger”
    - Hedging by committee leads to missed opportunities or worse
- **Constant market awareness**
  - TXUES role - Tactical implementation of hedging strategy - take advantage of market movements

# Finalize Electric Offers



- **Execute Terms and Conditions**
- **Consider non-price issues**
  - e.g. billing capability, flexibility on facility changes, load profiling (Konnections)
- **Value added programs and services**
- **Levels of REP support**
  - Pre sale
  - Post sale



- **Identify Any Future Requirements or Changes**
- **Define Your Energy Decision Processes**
- **Set Priorities and Timeline for Decision Making**
- **Meet with Account Manager**
  - **Execute Terms and Conditions**
  - **Submit Letters of Authorization to Utility**
  - **Sign Confidentiality Agreements as necessary**
- **Provide Load Information**

# Plan now to succeed in a deregulated energy market

